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S E C R E T VIENNA 000208

SIPDIS

FOR ISN/MTR, EUR/AGS AND EUR/PRA

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SUBJECT: RESPONSE TO DEMARCHE ON ADDITIONAL PROCUREMENT
ACTIVITY BY AUSTRIA'S DANIEL FROSCH EXPORT ON BEHALF OF
IRAN'S MISSILE PROGRAM (S)

REF: A) STATE 08414 B) 05 VIENNA 3464 C) 05 VIENNA
3325 D) 05 STATE 185786

Classified By: Economic-Political Counselor Gregory E. Phillips for
reasons 1.4 (b,d,h)

1. (S) Econ Chief and Poloff delivered ref A talking points on January 23 to Helmut Krehlik, head of the Export and Import Control Division in the Ministry of Economics and Labor (MOE). Krehlik informed us that the Austrian Federal Office for the Protection of the Constitution and Counterterrorism (BVT) had met with Daniel Frosch, head of Daniel Frosch Export (DFE) Industrial Spare Parts, last week and there were indications that Frosch may become more cooperative. Frosch is apparently in financial difficulties and told the BVT that he is planning to stop all of his dealings with Iran. He also promised to give the BVT all of his files on Iran, including names and cover addresses. Clearly not willing to take Frosch at his word, however, Krehlik outlined the various measures that the GoA was taking to prevent Frosch from proliferation activities.

GRAPHITE CYLINDERS TO REQUIRE LICENSE

2. (S) Krehlik said that he had recently given Frosch written notice that he was forbidden to export graphite cylinders to Iran without a dual-use license. Krehlik noted that the cylinders DFE had offered to Iran fell just below the standards required for a dual-use export, but that the MOE would use Article 4 of the EU's Dual-Use Regulation to justify dual-use certification. Krehlik noted that it was quite common for exports to Iran to fall just below the technical specifications for dual-use controls, an intentional strategy employed by the Iranians.

WATCHING FOR EXPORT OF U.S. ELECTRONICS

3. (S) Referring to DFE's possible purchase of U.S. electronic components, Krehlik said that he would clearly inform Frosch that it is prohibited to re-export U.S. goods to Iran. This will ensure that Frosch has "positive knowledge" of U.S. law. Moreover, Krehlik said that BVT officials informed Frosch that if he proceeds with the export, the BVT will "stop every shipment he makes."

LOOKING THROUGH THE FILES

4. (S) According to Krehlik, the Finance Ministry has obtained copies of all of DFE's business transactions and the GoA is currently combing through the files for evidence of illegal exports. Krehlik admitted that nothing damaging has surfaced yet, but he cautioned that the process was time-consuming and technical.

FROSCH FITS THE PROFILE

5. (S) Krehlik mused that Frosch*who is only in his mid-20s*fits the profile of somebody who the Iranians look to work with on proliferation exports. He is young, financially motivated, and runs a small company with only one other employee. According to Krehlik, larger, more experienced companies have more to lose and will usually not take the risks that Frosch has.

KILNER